

# State Debt

**House Select Committee on Legacy Costs from the State Health  
Plan, Pensions and ESC**

**October 16, 2012**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Benefits of Debt Finance

- Provides for Intergenerational Equity
- Maintains Stability
- Lowers Opportunity Costs
- Enables Construction of Large Projects

# Drawbacks of Debt Finance

- Adds Additional Costs to Projects
- Reduces Flexibility in Future Years
- “Crowds Out” Other Items in the Budget

# Types of State Debt

- General Obligation Debt:
  - Secured by the faith and credit of the State
  - Requires the approval of the majority of the Voters
- Two Thirds/Legislative Bonds
  - Secured by the faith and credit of the State
  - Voter approval is not necessary
  - Limited to the amount of indebtedness reduced during previous biennium

# Types of Debt: Continued

- Revenue Bonds:
  - Backed by revenues generally tied to the project being financed
- Special Obligation Bonds:
  - Backed by various agency revenues
  - Limited to the University of North Carolina System

# Types of Debt: Continued

- Special Indebtedness and COPS
  - Backed by pledge of appropriation
  - Item being financed may be pledged as security
  - Statutory framework enacted in 2003

# Debt Management

- Debt Affordability Advisory Committee
  - Created in 2004
  - Advise the State regarding prudent debt levels
  - Chaired by the State Treasurer
  - Other Committee Members include: State Auditor, Sec. of Revenue, State Budget Officer, State Controller, Two Senate Appointees, Two House Appointees

# Debt Management Continued:

- 2012 DAAC Recommendations:
  - Structural budget balance
  - Net Tax-Supported Debt should be targeted at no more than 4.0% of General Tax Revenues and should not exceed 4.75%.
  - General obligation debt should be the preferred method of debt financing
  - Centralized debt authorization authority
  - Other liabilities



# Debt Management: Continued

- Credit Rating:
  - Aaa (Moody's), AAA (S&P), AAA (Fitch)
- Payout Ratio:
  - Ten year pay out ratio of 63% at June 30, 2011
- Limited Variable Rate Debt:
  - \$355 million
- Debt Level:
  - Moderate (Moody's)

# Outstanding Debt

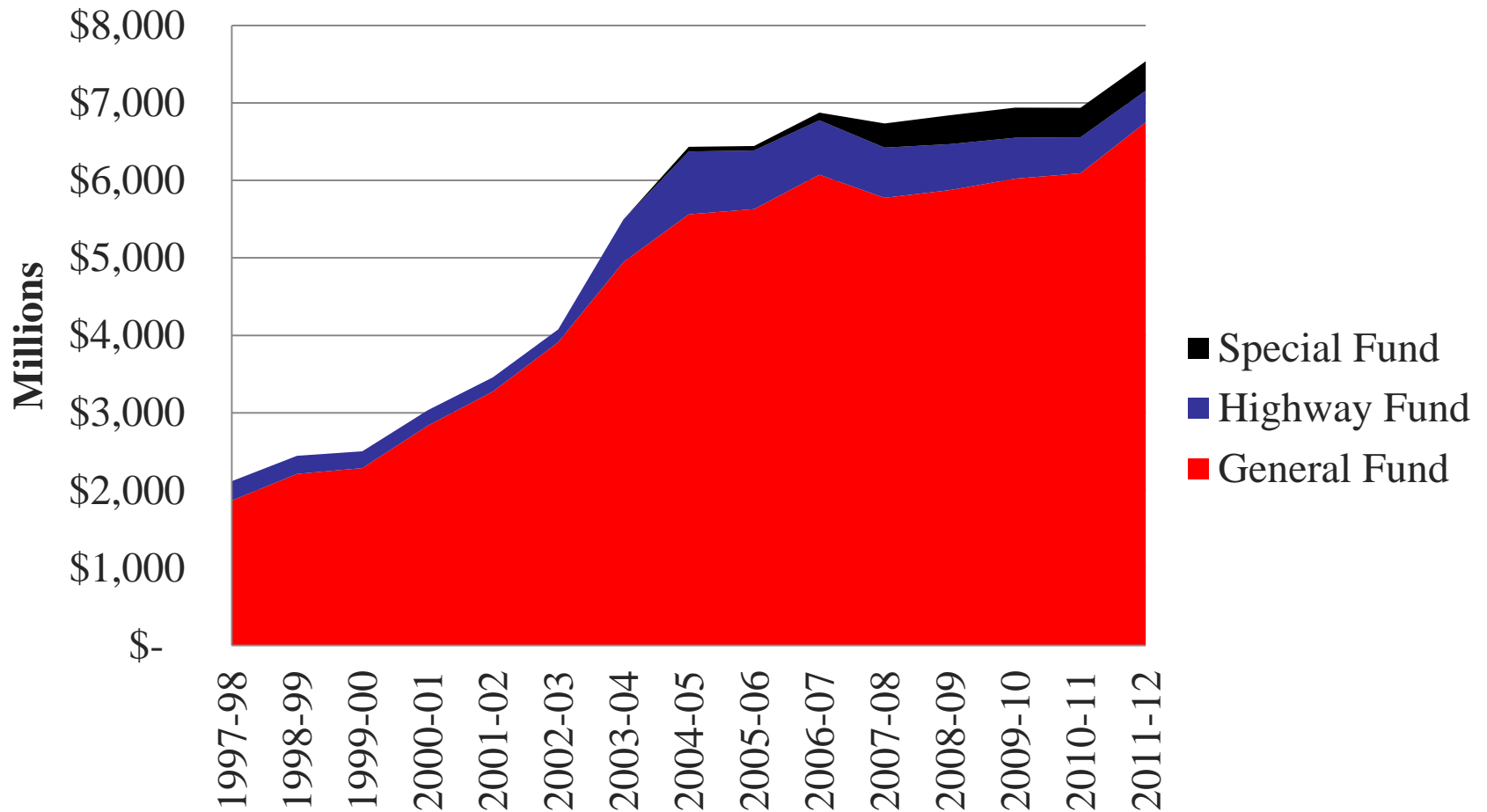
- General Obligation Bonds:
  - \$4.47 Billion
- Special Indebtedness:
  - \$2.38 Billion
- GAP Funding
  - Highway fund support of NC Turnpike projects
  - \$1.05 Billion

June 30, 2012

# Special Indebtedness

Project	Amount (Billions)	Percentage
Corrections	\$0.8	22%
Psychiatric Hospitals	\$0.4	11%
University	\$1.6	42%
Parks and Land	\$0.2	5%
Repair and Renovation	\$0.4	9%
Other	\$0.4	11%
<b>Total</b>	<b>\$3.8</b>	<b>100%</b>

# Outstanding Debt History

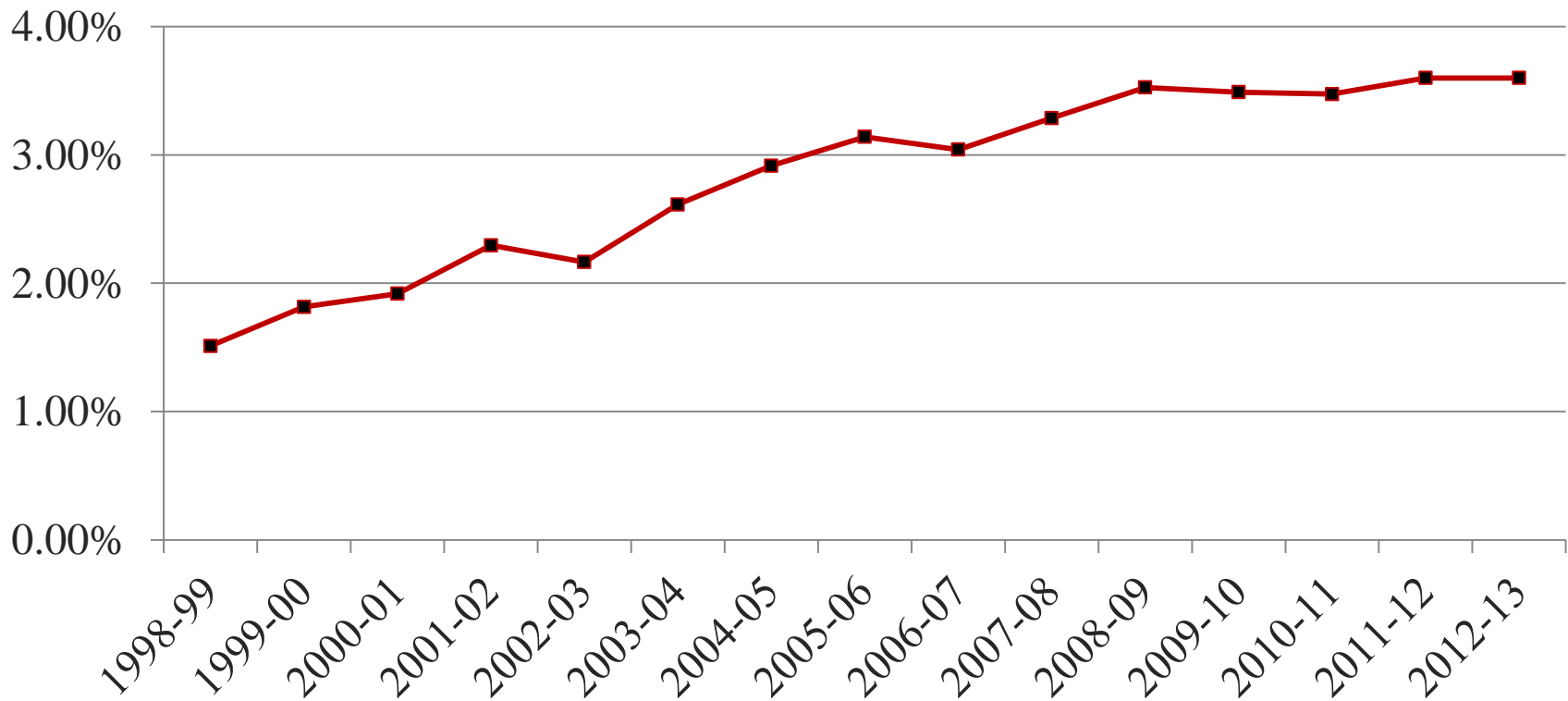


# Debt Service

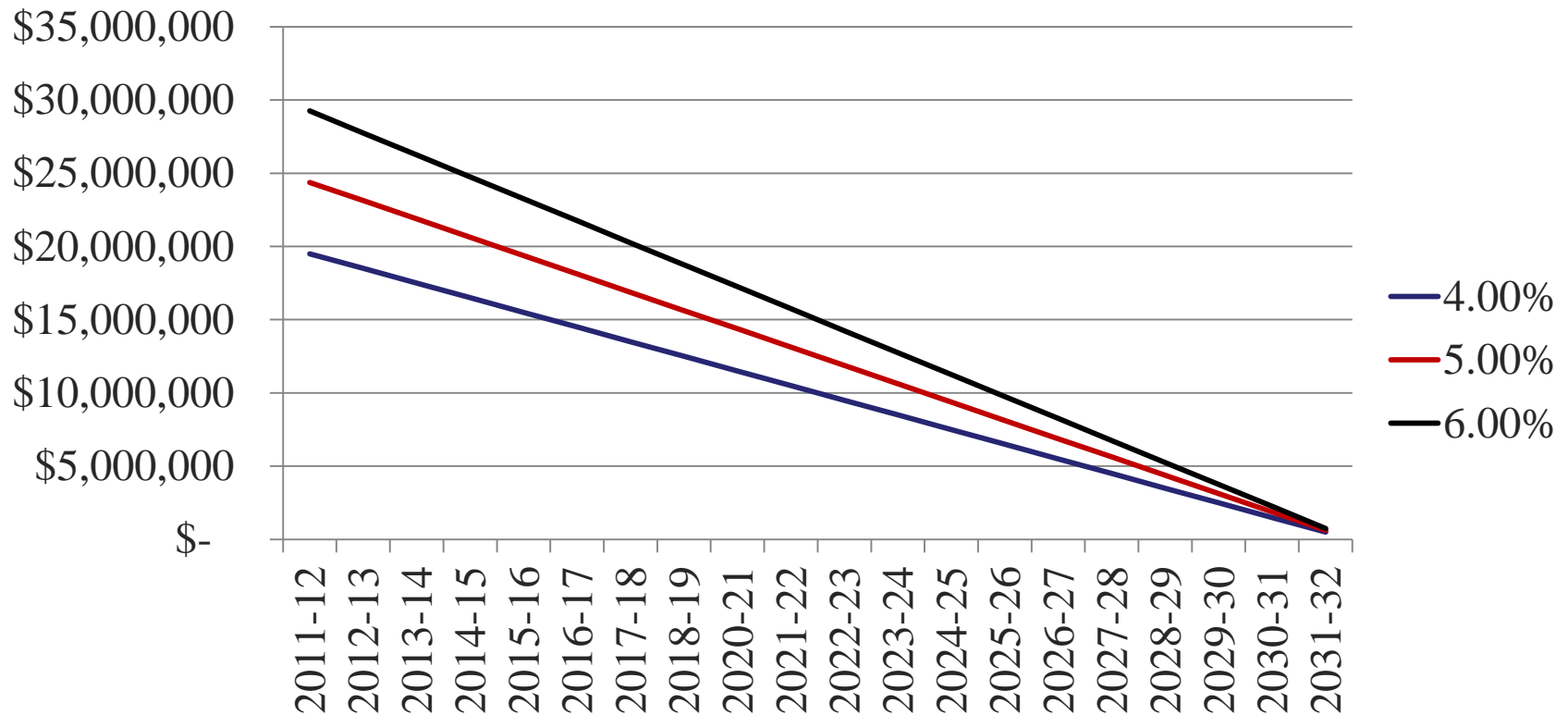
- General Fund Debt Service for the Current Biennium:
  - FY 2011-12: \$695,081,502 (3.6%)
  - FY 2012-13: \$708,696,719 (3.6%)
- General Obligation vs. Special Indebtedness (Estimates):
  - FY 2011-12: 61% GO vs. 39% Non-GO
  - FY 2012-13: 60% GO vs. 40% Non-GO

# Debt Service History

## Debt Service as a Percentage of General Fund Revenues



# Interest Rate Change Impact



\$500 million bond issue, fixed principal, semi annual repayment

# University of North Carolina

- Self Liquidating Debt
  - Statutory framework created with the 2000 Higher Education Bonds
- Pledge of “Obligated Resources”
  - Rents, charges, or fees
  - Earnings on the investment of the endowment fund
  - Overhead Receipts
  - No pledge of appropriation\* or tuition



# University of North Carolina

## Approval Required:

- Approval of Board of Governors
- Authorization by General Assembly
  - Authorization typically occurs in the “Self Liquidating Bill”

# UNC Outstanding Indebtedness: FY 2012

ASU	\$255,172,062	UNC-CH	\$1,362,772,538
ECU	\$162,935,971	UNCC	\$360,679,486
ECSU	\$37,415,643	UNCG	\$231,355,524
FSU	\$25,693,213	UNCP	\$79,261,189
NC A&T	\$14,405,000	UNCW	\$246,855,487
NCCU	\$93,958,436	UNCSA	\$8,275,000
NCSU	\$417,646,121	WCU	\$116,938,835
UNCA	\$43,661,169	WSSU	\$70,887,358

**Total: \$3,527,913,032**

# Recent Actions:

- S.L. 2011-66 (Debt Reduction Act of 2011)
  - Canceled \$232.4 million in State debt.
- H.B. 491 (Repeal Capital Facilities Finance Act):
  - Passed House
- S.L. 2012-164 (Self-Liquidating Bill)
  - Authorized \$218 million in UNC Supported Debt

# Deficiencies in State Buildings

- Facilities and Condition Assessment Program (Estimate: FY 2012):
  - \$2.3 billion in deficiencies in General Fund supported state agency buildings
  - \$2.1 billion in deficiencies in General Fund supported university buildings
  - \$89.2 million appropriated for Repair and Renovations for current Biennium (FY 2011-13)

# Questions

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